

## DISTRIBUTION OF BANKING PRODUCTS AND SERVICES.

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*Starting with the '90s, retails banks have faced several challenges. One of them is how to efficiently deliver their products and services to the customers. In fact, the most important challenge of a bank is how to efficiently reach the customer, with the right product or service, at the right time. Today, they can choose between branches, contact centers, ATMs, online channels, portals and web banks. Multichannel banking is, therefore, more relevant than ever. Multichannel banking is more than just offering multiple channels, but offering integrated channels, with the optimal balance of services, prices and offer across channels. Banks should have the ability to deliver the right service at the right time in the right channel. The bank should define exactly how they are going to use each channels, which services and products in which channels, how to mix and integrate the channels and how to support the channels.*

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### **Distribution in banking**

A distribution channel is a route to the market for a supplier<sup>789</sup>. In the case of a bank, the distribution channel is the way the banking product or service takes from the bank to the customer. Most banks have multiple channels to serve their customers. Today, they can choose between branches, contact centers, ATMs and online channels, portals and web banks.

Types of distribution channels

**1. Branches.** These are the face of the bank and the place where the client meets the bank. The distribution is made by the traditional counter. The bank's president is far away and not always known to customers. However, the client manager is close, he advises, listens to the client, makes clients' financial life easier<sup>790</sup>. According to a survey carried out by Accenture in September 2008<sup>791</sup>, the branch is the most preferred channel for all the interactions that emotionally involve customers, such as buying complex products (76% preference) receiving financial advice (71%) and resolving an issue (59%). 73% of the customers visiting a branch say that they are looking for a personalized contact. In this respect, the branch is a distribution channel where the human factor plays a dominant role.

**2. Specialized branches** have been created as an alternative for the classic branches. These specialized branches are focused on a certain type of activity such as: operations for individuals, for small business or for corporate clients. Banks have opened such branches in supermarkets or malls. The main reason for establishing such branches was to have a close relationship with these corporate customers and to provide services of interests for their clients. Their primary activities are the consumer loans and basic operations for individuals (payments, foreign exchanges etc.). These branches are accessible all week long (even in Saturdays and Sundays) as long as the

<sup>789</sup> Julian Dent – Distribution Channels. Understanding and Managing Channels to Market, Kogan Page, London, 2008.

<sup>790</sup> EFMAG Magazine No. 220 July/August 2009, Branches- The Client comes for a service to satisfy his needs, [http://www.efma.com/index.php/our\\_services/efmag/index/EN/1/74/220](http://www.efma.com/index.php/our_services/efmag/index/EN/1/74/220).

<sup>791</sup> EFMAG Magazine No. 218 March/April 2009, Multichannel Distribution – The interconnected approach [http://www.efma.com/index.php/our\\_services/efmag/index/EN/1/74/218](http://www.efma.com/index.php/our_services/efmag/index/EN/1/74/218).

supermarkets and malls are open. BRD-GSG, ING Bank were the first banks to open such branches in Romania.

3. In order to better serve certain ranges of clients, banks have also created **corporate branches** or **private banking branches**. These clients require more sophisticated products and services and high standards of quality. Therefore the staff employed in these branches should be seniors in terms of products knowledge and the quality of service delivery.

4. Among the specialized branches, we can also mention: the **mortgage branches** whose focus is on selling mortgage loans. Raiffeisen Bank created such a branch named „Raiffeisen – Casa Ta” as a result of the high demand for mortgage loans and the complexity of these products.

5. **Self banking branches** were first created by ING. These branches have two areas: one where the customers are served by bank employees (usually 3 or 4 persons) during the normal working hours and one where the customers can use self banking devices. These can be used all day long (24h/24, 7 days/7) and the access to this area is given to all the bank customers who have a debit card. Here, the clients can make deposits, payments, cash withdrawals, invoice payments, repayments of loans installments. BRD-GSG, RBS have also created such self banking branches.

6. **Mobile branches** were first used by Raiffeisen Banca pentru Locuitorii. The bank did not have a branch network and the products were delivered by the help of sales agents. The bank started a banking caravan which reached the most important cities in Romania. The aim of this caravan was to promote and to sell the bank's products. BRD-GSG has also created a flexible and movable branch. ( BRD BLITZ) located mainly in rural areas. In this respect, the branch wanted to reach the rural population (neglected by all others banks). These branches had a rapid installation (2 weeks) and can be easily relocated to another place (if necessary). The opening hours were 2-3 days/week, 3-4 hours/day.

7. **Banking cafes** were first settled in Romania by Banca Transilvania. The banking cafe is the result of a partnership between a bank and a cafe. The branch that is located in a cafe can offer a full range of products and services (information point which offer leaflets, brochures with the bank's products and services to the existing and potential customers along with financial newspapers and magazines). This concept was later developed by ING, Volksbank, BRD. These banking cafes are in the major cities of Romania (where there is a large business community).

8. **Direct mail** is another distribution channel for banking products and services. In the same time, direct mail is also a promotional tool. The aim of delivering the banking products and services by mail can be, not only just simply informing the clients about a new product but also convincing the client to buy a certain product. The main advantage of delivering by mail is the fact that the bank can promote its products and services to a certain segment of clients. In this way, the bank can target a certain group of clients in order for the message and products to be tailored accordingly.

9. **Automatic teller machines (ATMs)** were first introduced in Romania in 1995 and they have evolved ever since. By the end of 2006, the number of ATMs overcame the number of branches. This fact is explained by the difference of operation costs involved by these two distribution channels. ATMs have been rapidly moving from just a cash-dispensing machine to a self-service banking channel. The driving forces of this movement are: firstly, the pursuit of operational efficiency and then, the battle for differentiation in the service being offered.

ATMs can increase the marketing potential by providing services to clients in others places than the bank branches. ATMs are an alternative for crowded desks in branches. Cash withdrawals were moved from the cash desks to the ATMs and this transfer is encouraged by most of the Romanian banks by lower fares for these services. This can reduce the waiting time in branches. The numbers of ATMs users has increased in Romania. The clients appreciate the user-friendly feature of ATMs , the large number of operations that can be done through ATMs, the speed and the security of these devices and last but not least the theoretically unlimited availability of ATMs. Besides all these, all the transactions are automatic, which reduces the risk of human mistakes in transactions.

9. **EFTPOS (Electronic Funds Transfer at Point of Sale)** is a payment method that can be described as a distribution channel. EFTPOS is a system by which the clients pay the services they acquired just by using a bank card. This system is very used when shopping, travelling, buying tickets.

In a society where time is money, there has been a huge request from the customers for more accessible distribution channels. The computers and the mobile phones were the best choice. As a result the banks have made considerable investments in the development of services that are not based in the branch and which are accessible through the Internet or mobiles phones. The development of electronic distribution channels has resulted in the appearance of a new concept: **the virtual bank**. This is the bank where the contact can be reached by a large variety of distribution channels, but maintaining the same interface and having access to the same services. The client has the possibility of choosing from a large variety of channels: phone, ATM, POS, Internet. As a result,, a new form of banking has appeared. „Martini banking” which signifies the presence of the banking products and services „anywhere and any time”.

10. **Mobile banking** appeared in Romania in 2003. At the beginning, only some services were available: account balance, information about exchange rates etc. At present, all the banks provide mobile banking and the range of services provided is very wide: payments, direct debits, information about the nearest ATM/branch etc.

11. **Call centers** - Raiffeisen Bank was the first bank to start up a call center in Romania in 2004. Up until that moment, the only possibility to contact the bank by phone was through the branches' numbers. The only dedicated phone-line for a bank was the one related to card problems. The client used to pay the price of an ordinary phone call. By means of call centers, the contact with the bank was made through a toll-free phone-line which makes this distribution channel very accessible. Through call centers, all the information is received for free and one client can choose from a large range of services (information about accounts balance, payments, exchanges, applying for a credit etc.) The most important issue is to ensure the security of this service. The client is authenticated for each transaction by certain devices. Nowadays, the call centers are used as a marketing tool. Through it, the bank can start marketing researches, can sell products and services. As the mobile phone is an almost indispensable accessory, incomparably easier to handle than a computer, the phone banking is becoming a more advantageous alternative to Internet banking.

12. **Internet banking**. There is a debate about the impact of technology in services marketing, for example the Internet. The Internet-driven information revolution is widely seen to be transforming the way both business and consumer operate. This is particularly relevant in banking services, where transactions do not require interpersonal interaction. In such cases the Internet becomes a new distribution channel. However in other context the Internet is widely used as an information source or a promotional tool<sup>792</sup>. Internet banking was launched in Romania in 2003. At that time, the bank posted on the Internet information concerning only the bank and the range of products and services provided. Later on, the Internet became a distribution channel by providing an entire range of services: payments, information about account balances. The Internet facilitates payments for services (event the state taxes) by the help of virtual cards. The Internet is also a tool for acquiring new clients by online applications for different products. In terms of clients' preference, the internet is more preferable to other distribution channels by simplicity, availability and customization<sup>793</sup>. The only constraint is the fact that the Internet is not accessible to all the clients.

13. As banking market is highly competitive, the banks have looked for new formats to successfully develop market and deliver its services. Further promising approaches to distribution

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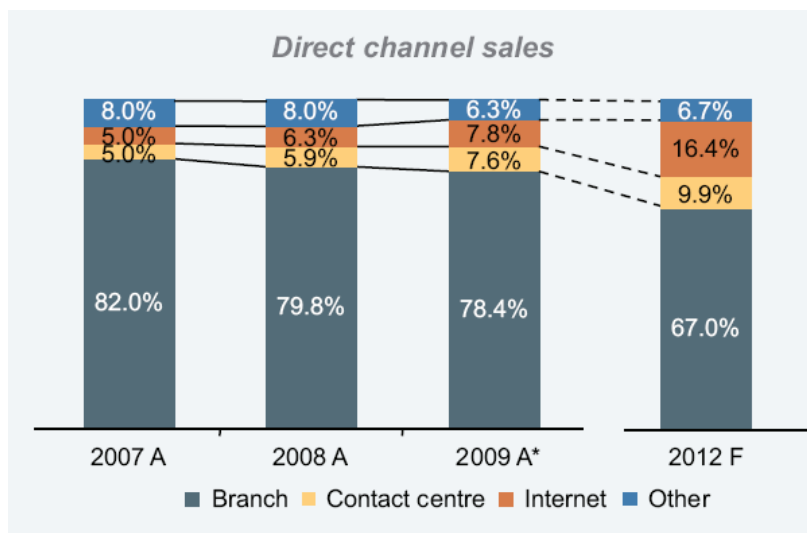
<sup>792</sup> Gilmore Audrey – Services Marketing and Management, Sage Publication, London 2003

<sup>793</sup> EFMAG Magazine No. 218 March/April 2009, Multichannel Distribution – The interconnected approach [http://www.efma.com/index.php/our\\_services/efmag/index/EN/1/74/218](http://www.efma.com/index.php/our_services/efmag/index/EN/1/74/218).

can be found outside banking. In many sectors, a rapidly growing number of **franchise** systems works with self-employed entrepreneurs as franchisees, who sell the franchisor's products or services, benefiting from a standardized sales and marketing concept. In Romania, ING and Volksbank operate through franchises.

Besides, the banks started also to deliver through **sales agents**. The Romanian banks use this distribution channel for specialized services. Raiffeisen Bank, for example, have created teams of sales agents whose sales' focus is on credit cards and loans for SMEs.

According to Finalta/EFMA Multichannel Survey 2009<sup>794</sup>, the proportion of all retail banking sales made through each of the main distribution channels is shown in the following chart:



Source: Finalta/EFMA Multichannel Sales Productivity – November 2009

As we can see from this chart, there is a change on a year-to-year basis in direct channel sales. This is most due to the impact of information and communication technologies on banking. Sales is moving away from branches. Still, the branch remains the dominant channel by sales volume. While its contribution is expected to decline by 2012, banks still believe it will account for nearly two-thirds of sales. The share of retail banks sales from direct channels increased from 12,2 % in 2008 to 15,4 % in 2009. Bankers forecast rapid future growth, estimating that by 2012 direct channels sales will account for a third of all products sold, driven by a doubling of the Internet's sales contribution.

## Conclusions

As we could see, most banks operate through various distribution channels. The expectation was that customers would eventually conduct most of their business online or by phone. However, current studies suggest that customers still prefer the branches. Over the last decade, banks have made considerable investments in the development of services that are not based in the branch. (this has led to a dramatic increase in the use of Internet and mobile banking, whilst the role of the ATM has also increased). Multichannel banking is, therefore, more relevant than ever. Multichannel banking is more than just offering multiple channels, but offering integrated channels, with the optimal balance of services, prices and offer across channels. Banks should have the ability to deliver the right service at the right time in the right channel. The bank should define exactly how they are going to use each channels, which services and products in which

<sup>794</sup> Multichannel Sales Productivity 2009, EFMA/FINALTA Report, November 2009, [http://www.efma.com/index.php/our\\_services/publications\\_studies\\_surveys/detail/EN/1/262/1-5190X](http://www.efma.com/index.php/our_services/publications_studies_surveys/detail/EN/1/262/1-5190X).

channels, how to mix and integrate the channels and how to support the channels. To do this, they need to understand customer behavior, channels performance and the channel's operating cost. However, managing and integrating the distribution channels within an increasingly complex and challenging operating environment has become very difficult.

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